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RUEHBO/AMEMBASSY BOGOTA PRIORITY 2685
RHMFISS/CDR USSOUTHCOM MIAMI FL PRIORITY
RUEAIIA/CIA WASHDC PRIORITY
RHMFIUU/DEPT OF ENERGY WASHINGTON DC PRIORITY
RUEATRS/DEPT OF TREASURY WASHDC PRIORITY
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SUBJECT: PANAMA FACES ENERGY CRUNCH, GOP MAY SOON RATION
ELECTRICITY

¶1. (U) Panamanian Secretary of Energy Dani Kuzniecky announced May 16 that the GOP may begin rationing electricity as early as May 22 if nationwide consumption is not reduced immediately. Kuzniecky and Public Utilities Authority Chief Victor Urrutia warned that Panama faces "grave" electricity shortages owing to reduced hydropower capacity caused by a lack of rainfall. Panama relies on hydropower for about 60% of its electrical supply, with the remaining 40% supplied by thermal generating stations. As water levels at two key reservoirs, Lakes Fortuna and Bayano, are reportedly eight times below their average levels, hydropower capacity is increasingly constrained. Panama's daily electricity demand recently hit a record 1,059 megawatts, coming perilously close to the system's reliable installed capacity of 1,100 megawatts. Thermal plants, which are currently running full tilt, are unable to cover possible shortages. Additionally, Panama's booming economy (which grew by 11.2% in 2007) has kept demand from falling despite a 20% increase in electricity prices over the past four months. This boom has pushed electrical demand up by nearly 8% in the past six months, which is nearly twice the average annual increase of 4.4% over the past ten years.

¶2. (U) In urging consumers to reduce consumption, Urrutia warned that consumers may otherwise see rolling two-hour blackouts affecting 500,000 households. Kuzniecky announced that, starting on May 20, the GOP will require public sector employees to work only six hours per day from 7:00 a.m. to 1:00 p.m., thereby enabling government offices to scale back peak-hour consumption. The GOP will also require businesses to turn off lighted commercial signs to further reduce the electricity demand. Over the long term, the GOP plans to encourage renewable energy sources, integrate the electrical grid with neighboring countries, and complete the construction of additional power plants.

¶3. (U) Panamanian business leaders worry that rolling blackouts and future shortages will brake Panama's galloping economic growth. Several of them alleged that prior GOP mismanagement of the sector slowed investment in new generating capacity and put the country in its current predicament.

¶4. (U) Comment: The GOP's stopgap measures may do little to forestall the need for rolling blackouts, nor do they address adequately the underlying institutional weaknesses that contributed to this energy crunch. Although Kuzniecky told econoffs on May 13 that demand would not outstrip supply for about four weeks, he and Urrutia appear increasingly alarmed by the late onset of Panama's rainy season combined with unabated increases in demand. If electrical demand growth were to continue at 8% per year, Panama would need to double

its installed capacity of 1,500 megawatts in eight years.
Given the long lead times required for new generating
stations, Panama's continued economic expansion will likely
be constrained by persistent electricity shortages over the
next several years. End Comment.
EATON